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## **Thailand**

**Post:** Bangkok

### **MY2009 and MY2010 Price Insurance Scheme Update**

**Report Categories:**

Grain and Feed

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**Report Highlights:**

TH0084 A recent survey found high standing for the implementation of the Price Insurance Scheme over the Price Mortgage Scheme. The Government plans to continue the Price Insurance Scheme for MY2010/2011 crops. However the program is facing challenges computing benchmark prices. The benchmark price is used to determine the amount of compensation that farmers receive when market prices fall short of insurance price levels.

## High satisfactory rating on new price insurance as compared to mortgage scheme

In MY2009/10, the Thai government replaced the Price Mortgage Scheme (PMS) with the Price Insurance Scheme (PIS), a support program of direct payments to farmers based on a government established price insurance ([TH9161, “Price Insurance Starts to Replace Mortgage Scheme”, Oct. 29, 2009](#)). A survey conducted by the Bank for Agriculture and Agricultural Cooperatives (BAAC) on the MY2009/10 main-crop found that 73.2 percent of farmers preferred the PIS scheme over the long-standing PMS. Only 17.2 percent of farmers favored the PMS and 9.5 percent had no preference.

Under the PIS, the BAAC registered 4.35 million eligible farmers. Of these, 3.5 million are rice farmers, 447,306 tapioca farmers and 400,328 corn farmers. For the MY2009/10 off-season PIS, approximately 460,000 participated in the program. In both seasons, over 95 percent of the farmers participated in the PIS.

Under the PIS, a considerable increase in rice farmer participation occurred over the PMS which amounted to a 537 percent increase. This was due to the ability of small-scale farmers, particularly the northeastern farmers with average holdings of 10-20 rai (2-3 hectares), to participate in the program as liquidity concerns were addressed. Under the PMS, farmers would have to wait up to a month to redeem their sales. Under the PIS they are able to cash-in on their sales at market prices immediately and have plenty of liquidity while waiting for their compensation to be paid on.

**Table 1: Assessment of the new price insurance scheme**

	<b>Agricultural Support Program on Main-crop Rice</b>	
	Price Insurance Scheme (MY2009/10)	Mortgage Scheme (MY2008/09)
Participation rate (Number of farm household)	3,528,364	554,067
Budget outlays (Million baht)	27,762	67,056
Rice stock (Million tons of paddy)	0	6.1

Source: Bank for Agriculture and Agricultural Cooperatives (BAAC)

Under PIS, the government is not involved in purchasing stocks as such no government stocks were accumulated. However the government still holds 5-6 million tons of rice stocks accumulated from past PMS programs. Budget outlays for the PIS were reduced significantly to 27.8 billion baht (\$854 million), as compared to 67.1 billion baht (\$2.1 billion) for the buy-in cost alone under the MY2008/09 PMS.

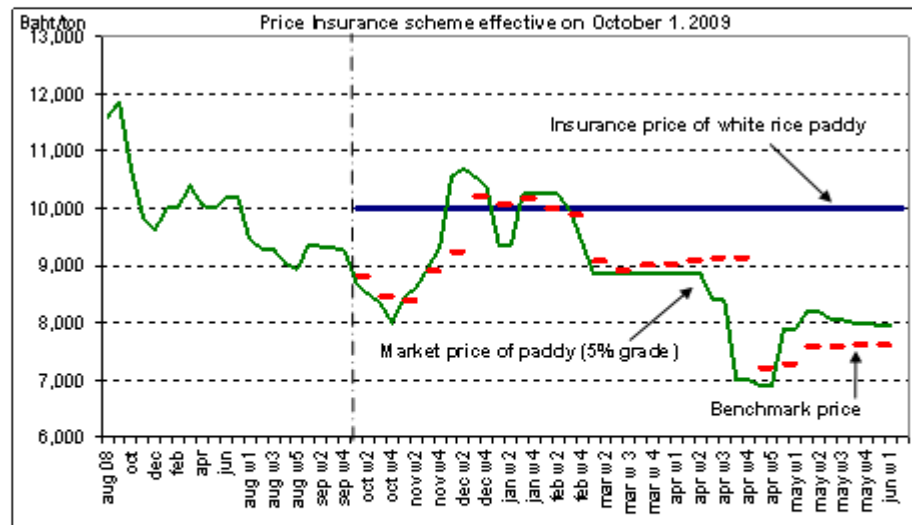
## Lessons learned and challenges for MY2010/11

Due to the success of the PIS, for both the farmers and the government, the Ministry of Commerce proposed to the National Rice Policy Committee on May 2010 to continue the program for MY2010/11. Exact details of the program are yet to emerge. However insurance prices will likely be unchanged from last year's as production costs have remained unchanged and the government intends to maintain a profit margin of 30 percent. The eligible tonnage will likely remain at 25 tons of paddy since an increase would only benefit medium to large large-scale farmers. Sixty to seventy percent of all farmers produce less than 25 tons.

A key challenge to the program will be benchmark price determination. The benchmark price is used to determine the compensation that farmers would receive when market prices fall short of the insurance price. Presently, benchmark prices are announced on a weekly basis based on the previous week's average wholesale prices in Bangkok. This calculation used to be done bi-weekly. However the method did not capture timely market swings especially in volatile periods. Other methods being considered include using future prices based on the Agricultural Future Exchange of Thailand (AFET), and longer historical average prices. However, they are still being tested to see if they are reliable indicators to capture market movements.

Farmers are very sensitive to the benchmark prices as their compensation relies exclusively on the benchmark price calculation. Presently, farmers are satisfied with the current system as they have benefited in periods of significant market price declines.

**Figure 1: Comparison of market price, insurance price, and benchmark price**



Note: 1/ Benchmark prices are average historical wholesale prices which will be used for the calculation of compensation to farmers. The compensation is based on the difference between insurance prices and benchmark prices.

<sup>2/</sup> Starting March 8, 2010 the benchmark prices will be published on a weekly basis instead of twice a month on the 1st and 16th, based on average historical wholesale prices of last 15 days in Bangkok. The prices are set by the Subcommittee on Benchmark Price Determination, chaired by the Permanent Secretary General of the Ministry of Commerce.

<sup>3/</sup> Starting Apr. 26, 2010 the benchmark prices will be based on average wholesale price of last week in Bangkok.

An additional challenge is the type of measures that should be implemented when significant price

declines occur. For the MY2010/11 PIS, the government applied PMS type-measures to try to stop price declines, such as a buy-back program of 2.0 million tons for MY2009/10 main crop ([TH0047, “Weekly Rice Price Update,” 3/2/2010](#)). However, the program was not successful due to low miller participation.

To address this problem, on May 18, the government approved measures that would provide the necessary incentives for miller participation. The measures in place would allow millers to swap lower quality second-crop rice for government high quality rice stocks at 1:1 ratio, with the caveat that millers buy current off-season crop at 300 baht/ton of paddy above benchmark prices. The government expects that 300,000 tons will be exchanged under this program, which will allow farmers to receive the extra 300 baht/ton for their paddy and full compensation from the price insurance scheme.

The program is controversial since the measure only benefits large-scale millers who have the liquidity and credit to buy large quantities of second-crop paddy and exchange it for high-quality government stock.

End of report.